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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 001364

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EUR FOR DAS BRYZA, EUR/ERA, EUR/NCE; SCA FOR PDAS MANN; EEB

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TAGS: [ENRG](#) [EPET](#) [BU](#)

SUBJECT: RESULTS OF SOFIA REGIONAL ENERGY OFFICERS TRAINING  
SESSION DECEMBER 6-7

REF: A. A) SOFIA 1239

[B. B\) ANKARA 2419](#)

Classified By: AMBASSADOR JOHN BEYRLER FOR REASONS 1.4 (B) and (D).

[1](#)1. (SBU) Summary: On December 6-7, 37 USG energy officers from more than 30 posts and agencies gathered in Sofia for a training session on midstream economics and pipeline projects. On December 6 outside speakers from industry, thank tanks and the European Commission briefed on pipeline project structure, financing, and EU energy policy, as well as on the status of major proposed pipelines in Europe and Eurasia. On December 7, SCA PDAS Steven Mann and EUR DAS Bryza presented a Washington perspective of USG efforts to promote energy security in the region. The officers also discussed ways to improve Washington-field coordination on energy issues and made recommendations to improve USG energy officer training programs, which will be reported septel. This conference was a direct outcome of the Regional COM Energy Conference held September 21 in Istanbul. Detailed conference notes and speaker presentations will be sent to all participants via email. End Summary.

[1](#)2. (SBU) Day one of the two-day event was devoted to training officers on midstream economics and projects. The program began with Mark Lewis, a Washington-based partner at the law firm of Paul Hastings, Janofsky and Walker. Lewis, a pipeline attorney who worked on the Baku-Tbilisi-Ceyhan pipeline and who is currently legal counsel to the Bulgarian participants in the Burgas-Alexandropolous pipeline, presented a detailed analysis of pipeline project legal and tariff structure, financing, and implementation. Kitty Nyitrai, Officer for Energy Policy and Supply Security at the European Commission discussed EU energy policy, especially as it relates to supply and route diversity. She said EU energy security is heavily influenced by growing demand, the fact that current pipelines are not interconnected, and the lack of coordination among member states on cross-border pipeline projects. She said that while the EU supports additional pipelines from Russia (Nordstream, South Stream), it is concerned about Russia's future upstream capacity.

[1](#)3. (SBU) Industry presenters offered four case studies on oil and gas pipelines. Hugh McDowell, President of BP Georgia, presented case studies of the Baku-Tbilisi-Ceyhan and Trans-Caucasus pipelines. Emphasizing lessons learned, McDowell said if the parties were structuring BTC today, they would not take on debt financing, but would rather finance the project themselves, in order to avoid the tremendous NGO

and financial institutional scrutiny to which BTC is currently subject. McDowell stressed the positive role the USG played in bringing Azerbaijan, Georgia and Turkey into alignment on the need for BTC. Next, Johann Gallistl, Vice President of Nabucco Gas Pipeline International and Director of International Pipelines at OMV, gave a highly optimistic picture of Nabucco's future. He explained that Nabucco will hold an "open season" in the first quarter of 2008 for 50 percent of its 30 bcm capacity. Probable sources now include, he said, Caspian and Russian gas. He said Nabucco should also look at Iran and Iraq as sources in the mid- to long term. He said Nabucco's pro rata principles will allow even small gas traders access to the pipeline.

14. (SBU) Alf D'Souza, Vice President of Shell International in Moscow presented an overview of LNG and a case study on Shell's experience in the Sakhalin II LNG project. D'Souza played down the possibility that LNG will significantly alleviate Europe's energy security concerns given the lack of LNG suppliers, costs, and time needed for project execution. Scott Bowen, Commercial Manager of Chevron Neftegaz in Russia, presented case studies on the Caspian Pipeline Consortium (CPC) and the Burgas-Alexandropolous pipeline (BAP). Bowen detailed the differences between CPC, a private pipeline, and more traditional pipelines, and stressed the challenges inherent in managing an 11-party consortium.

15. (SBU) Ed Chow, Senior Fellow at the Center for Strategic and International Studies, closed day one by presenting a framework for evaluating the prospects of all proposed pipelines. Chow said the answers to three key questions will determine whether any pipeline has a good chance for success:  
a) Who is the Commercial Champion? b) Who is going to take

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the risk? and c) Do the answers to the first two questions make sense? With this framework, officers analyzed the prospects of several pipelines, including Nabucco, CPC, BTC, Odessa-Brody and Eastern-Siberia-Pacific Ocean.

16. (C) On December 7, in addition to participant presentations on Russia and China, SCA PDAS Steven Mann and EUR DAS Matt Bryza presented Washington perspectives on U.S. policy on energy issues in Europe and Eurasia. From these presentations and the discussions that followed, the participants made the following conclusions:

-- USG energy policy in the region should not be anti-Russian or designed to damage or displace Gazprom. Rather, we want to see Gazprom make more rational, and market-based investments.

-- We should continue to stress the need for a coordinated EU energy policy.

-- Timing on pipeline projects is key. A race of perceptions is on between Nabucco and South Stream. If alignment of Nabucco countries is wobbly, this will have a profound impact on upstream interest, and investment, in Nabucco. If we know Azerbaijan has enough gas for Nabucco, the companies and countries involved must present a wide-ranging public release strategy in order to quiet Nabucco skeptics.

-- We must conduct a different kind of energy diplomacy in the new Europe and Central Asia. We cannot assume there is a sophisticated policy establishment in these countries that will easily digest and assimilate our policy. We must repeat our messages over and over. We must stress "quantity time over quality time," and invest ourselves in establishing deep personal relationships with our interlocutors. We must deliver our demarches and nonpapers in local languages.

-- We must pay more attention to East European allies who are almost entirely dependent on Russia for their energy needs and who, therefore, are more susceptible to Russian

pressure;

-- In Central Asia we must focus on laying the groundwork for the establishment of U.S., or at least western, commercial champions. With commercial champions for USG-supported projects in place, we can be confident that the projects we support make the most commercial sense.

-- As was stated in Istanbul (ref B), we must create a cadre of USG energy specialists who will be capable of taking over the formulation and implementation of USG energy policy toward Europe and Eurasia in coming years. In support of this goal, the energy officers discussed recommendations to improve USG energy training offerings. These recommendations will be sent via septel.

17. (SBU) Comment: The Sofia energy officers training session gave energy officers the chance to get training on midstream economics and projects, receive updates on Washington policy and thinking, and interact with one another. The format of training by outside experts combined with traditional conference discussion was highly effective and we recommend it be kept in future energy officer conferences, even after changes in official USG energy officer training programs are implemented. Embassy Sofia would like to thank PDAS Mann, DAS Bryza, EEB, EUR/ERA, and Geoff Lyon of Embassy Moscow for their support of the Sofia Energy Officers Training Session.

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